

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 8398

Tariff Filing of Swanton Village, Inc. Electric	)	
Department re: proposed rate design changes to take	)	Hearing at
effect January 1, 2015	)	Montpelier, Vermont
		May 19, 2015

Order entered: 7/29/2015

PRESENT: Kevin Fink, Hearing Officer

APPEARANCES: Elijah D. Emerson, Esq.  
Jocelyn Wilschek, Esq.  
Primmer Piper Eggleston & Cramer PC  
for Swanton Village, Inc. Electric Department

Timothy Duggan, Esq.  
for Vermont Department of Public Service

**I. INTRODUCTION**

In this proposal for decision, I recommend that the Vermont Public Service Board ("Board") approve, subject to conditions, a stipulation between the Village of Swanton, Inc. Electric Department ("Swanton") and the Vermont Department of Public Service ("Department"), and proposed rate design changes resulting from that stipulation.

**II. PROCEDURAL HISTORY**

On November 3, 2014, Swanton filed proposed tariffs implementing a rate design, to take effect on or after January 1, 2015 (Tariff Filing No. 8536).

On December 16, 2014, the Department filed a letter with the Board recommending that the Board suspend the proposed rate design filing and open an investigation.

On December 24, 2014, the Board issued an Order suspending the tariff filing, opening an investigation, appointing me to serve as hearing officer, and providing notice of a prehearing conference.

On January 16, 2015, I held a prehearing conference. Following the prehearing conference, on February 13, 2015, I issued a prehearing conference memorandum and scheduling order in which I raised certain questions for the parties to consider in this proceeding.

On February 20, 2015, Swanton filed responses to the questions included with the February 13 Order ("Swanton Responses"), along with the supplemental prefiled testimony of Lynn Paradis ("Paradis").

On March 6, 2015, the Department filed its responses to the questions contained in the February 13 Order.

On March 10, 2015, I held a public hearing in Swanton, Vermont. No members of the public attended the public hearing.

On April 24, 2015, Swanton filed a stipulation between it and the Department (the "Stipulation"). In the Stipulation, Swanton and the Department agree that the proposed rate design should be implemented as filed.

On May 19, 2015, I held a technical hearing at the Board's hearing room in Montpelier, Vermont. At the technical hearing, the prefiled testimony and exhibits were entered into the record. In addition, a corrected exhibit SED-FARMAN-17 was submitted on May 29, 2015.<sup>1</sup>

### **III. FINDINGS**

1. Swanton's proposed rate design will not alter Swanton's total revenue, which will remain at existing levels. Instead, under the proposed rate design, costs will be reallocated among customer classes. Steve Farman, Swanton ("Farman") pf. at 2.

2. Swanton's present rate structure includes seven separate rate schedules: Residential (A), Residential Demand (A-D), Small Commercial (B), Large Commercial & Industrial (D), Off Peak Service (OPS), Street Lighting, and Security Lighting. Farman pf. at 2.

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1. I hereby admit exh. SED-FARMAN-17 into the record. Any party wishing to object to the admission of this exhibit should do so in a motion for reconsideration of the Board's order.

3. The proposed revisions to individual customer classes are based on the results of a class cost-of-service study ("CCOS Study") designed to allocate Swanton's cost to serve among customer classes. Farman pf. at 2.

4. The CCOS Study was calculated on an embedded cost basis based on Swanton's current allowed cost of service of \$400,935.86. The allowed cost of service is laid out in three main sections consisting of one section for operations and maintenance, one section for depreciation, return, interest, and taxes, and a third section for operating revenue. Each line item of the allowed cost of service was allocated to the individual rate classes through the use of a variety of direct or internally developed allocators, such as class load. Farman pf. at 4-5; exh. SED-FARMAN-3; exh. SED-FARMAN-7.

5. The results of the class allocations from the CCOS Study were then used to develop a summary of total class revenue requirements and determine the extent to which current class revenue met these requirements. Farman pf. at 5.

6. Based on the CCOS Study, Swanton has proposed changes in the relative rates of each class. On a percentage basis, the proposed rates for the large commercial/industrial class would decrease by 4.1%, while the rates for the residential, residential demand, and small commercial classes would increase by 4.6%, 5.3%, and 6.6%, respectively. Farman pf. at 5.

7. In addition, rates charged for street and security lighting would decline substantially, by 48.9% and 31.4% respectively. These declines bring Swanton's street and security lighting tariffs more in line with the rates charged by other small Vermont municipal electric companies. Farman pf. at 5.

8. Overall, the results of the CCOS Study find that costs have increased proportionally for classes with lower-usage customers and lower load factors. This finding is consistent with regional electric trends associated with ongoing increases in peak-related costs, such as regional transmission costs. Farman pf. at 5.

9. In order to assess the results of the CCOS Study utilizing a different method, Swanton also prepared a high-level marginal cost allocation. The results of this analysis were broadly consistent with the results of the CCOS Study, with the exception of the resulting rates for the street and security lighting classes. However, given the high level of fixed costs associated with

serving street and security lighting customers, the marginal cost analysis performed in this instance does not accurately reflect the costs to provide service to these classes. Farman pf. at 7; exh. SED-FARMAN-10; tr. 5/19/15 at 13-16 (Farman).

10. In general, the CCOS Study and proposed rate design would result in lower customer charges, higher demand rates, and slightly lower tail block rates when compared with Swanton's existing rate structure. Farman pf. at 10.

11. As part of the proposed rate design, Swanton proposes to eliminate the Off Peak Service rate class. No customers have been served under the Off Peak Service rate in the past ten years. Lynn Paradis, Swanton ("Paradis") pf. at 3-4.

12. Swanton also proposes to modify the eligibility threshold of its residential demand tariff. Under Swanton's current tariffs, residential customers exceeding 1,800 kWh of usage in two consecutive months must take service under the residential demand schedule. In order to revert to the standard residential tariff, customers must avoid exceeding the 1,800 kWh threshold for two consecutive months in an eleven-month period and must not exceed 8 kW of demand in the same period. In recent years, Swanton has found that a number of its residential customers have bounced back and forth between their residential and residential demand tariffs. In order to reduce this volatility and ensure that the residential demand rate is being charged primarily to those customers consistently placing a higher demand on Swanton's distribution system, Swanton proposes to modify the eligibility threshold to a twelve-month average of 1,800 kWh per month, coupled with a requirement that the customer's twelve-month average remain below 1,800 kWh for three months before the customer can revert to the standard residential schedule. Farman pf. at 3.

13. Based on test-year billing data, Swanton estimates that this change will result in approximately 115 customers being moved from the residential demand to the residential class. Farman pf. at 3.

14. Swanton is also proposing to eliminate the so-called New York Power Authority ("NYPA") block of power,<sup>2</sup> which constitutes an initial, low-cost block of power provided to its residential customers. Currently, this block consists of the first 100 kWh of power billed to residential customers, but under currently available amounts of power the size of this block would decrease to between 70 and 75 kWh. Paradis pf. at 3; Paradis supp. pf. at 2.

15. Due to the elimination of the NYPA block, low-usage customers will see proportionally large bill impacts, while higher-usage members of the residential class will see proportionally smaller increases. However, the actual dollar impacts on low-usage customers are limited. Farman pf. at 11; exh. SED-FARMAN-17.

16. In addition to its retail rate schedules, Swanton also provides transmission services under a set of Local Service Tariffs that rely on formulas tied to market and other data to arrive at the tariffed rate. Tr. 5/19/15 at 9 (Farman).

17. Under the Stipulation, Swanton has agreed to update its Local Service Tariffs at the same time it makes a retail rate cost-of-service filing pursuant to 30 V.S.A. § 225. Until such time as Swanton revises its Local Service Tariffs, this will mean that Swanton will recalculate the rates charged under the Local Service Tariff pursuant to the formulas contained in the Local Service Tariffs. Exh. Joint-1 at ¶ 5.

18. All of the elements in the formulas that the final rates in the Local Service Tariff are derived from will be subject to change when the formula is recalculated pursuant to the terms of the Stipulation. Tr. 5/19/15 at 9 (Farman).

#### **IV. DISCUSSION**

The proposed rate design filing under investigation in this proceeding is the result of a requirement of the Board's September 25, 2013, Order in Docket 8024, which required Swanton to complete a class cost-of-service study due to the substantial time period since Swanton had

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2. Pursuant to certain federal requirements, a share of the power produced by certain NYPA-operated hydroelectric facilities has been made available to municipal and cooperative utilities in neighboring states, including Vermont, at relatively low cost. In Vermont, power made available in this manner has historically been allocated to residential customers as an initial, low-cost block referred to as the NYPA block.

last reviewed the appropriateness of its class allocations. As a result of the CCOS Study conducted by Swanton, Swanton has proposed a number of changes to its current rates which both reflect the results of the CCOS Study, as well as make certain policy changes to address issues that have arisen in the course of this and prior proceedings.

Historically, when considering rate design proposals from utilities, the Board has relied on the three criteria established by James C. Bonbright in his work *Principles of Public Utility Rates*, regarding adequacy, efficiency, and fairness.<sup>3</sup> Adequacy means that the rate design is revenue neutral. Efficiency means that the rates will be based on cost, and therefore will not lead to over- or under-consumption. Fairness requires that costs be allocated fairly among rate classes and that rates not be raised abruptly.<sup>4</sup> No party in this proceeding has argued that Swanton's proposed rate design fails to meet these tests.

In general, the CCOS Study and proposed rate design result in several broad trends: a reduction in monthly customer charges, slight decreases to tail block rates, and a shift in costs from higher-usage customers to the residential and small commercial class. These revisions are well supported by the CCOS Study and confirmed by the marginal cost analysis conducted by Mr. Farman. In addition, the Department has, by signing the Stipulation, endorsed the proposed changes and recommended that the Board approve the proposed rate design as filed. Based on these documents, I conclude that the proposed rate changes resulting from the CCOS Study will result in just and reasonable rates and recommend that the Board approve them.

In addition to the broad changes derived from the CCOS Study, Swanton has also proposed a number of policy changes which are discussed in detail below.

#### Elimination of the NYPA Block

Swanton, like other Vermont municipal utilities, has historically allocated its share of NYPA power as an initial, low-cost block of power to its residential customers. The size of this block is currently set at 100 kWh per residential customer per month. However, the share of

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3. See, e.g., *Tariff filing of Village of Lyndonville Electric Department re: proposed rate design changes, to take effect October 1, 2012*, Docket No. 7915, Order of 1/31/13 at 6.

4. *Investigation of City of Burlington Electric Light Department's 13.85% Increase in Rates*, Docket Nos. 4966/4882/4877, Order of 9/17/85 at 13-14.

NYPA power received by Swanton relative to its residential customer base has diminished over time, and now constitutes only approximately 70 kWh. Given the smaller size of the block and the administrative time needed to maintain such a block, Swanton proposes to eliminate the block entirely and allocate all NYPA power among its residential customers – effectively reducing the per kWh charge in the remaining residential tail block. This results in a proportionally greater increase for Swanton's low-usage residential customers than for those customers with greater power consumption.<sup>5</sup>

Presently, Swanton's average residential customer consumes around 635 kWh per month, and only 10.5% percent of Swanton's residential customers consume less than 100 kWh monthly.<sup>6</sup> Accordingly, most of Swanton's customers consume substantially more power than is covered by the existing NYPA block, let alone the size it would constitute if adjusted for current NYPA power received by Swanton. Additionally, while the proportional rate impact is high for Swanton's lower-consuming residential customers, the actual bill impacts are small; this change increases the lowest-consuming residential customers' monthly bills approximately 60 cents more than the highest-consuming customers.<sup>7</sup> Given the NYPA block's small size, I conclude that elimination of the block will not constitute a meaningful disincentive towards energy conservation, as the incremental cost of power will not change substantially as a result of its elimination.<sup>8</sup> I am therefore persuaded by Swanton's arguments in favor of eliminating the NYPA block.

### Demand Rate Changes

Swanton is also proposing to alter the terms of its residential demand tariff, which presently requires customers who exceed 1,800 kWh usage in two consecutive months in a twelve-month period to take service under this tariff. Customers on the residential demand rate

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5. Due to the proposed rate design's reductions to the customer charge, however, the very lowest consuming residential customers will actually see a decline in their monthly bill.

6. Exh. SED-FARMAN-17.

7. Exh. SED-FARMAN-15.

8. Leaving the NYPA block in place would have the effect of making the marginal cost of an additional 100 kWh of power in Swanton's residential tail block just 70 cents higher than the proposed rate design. Tr. 5/19/15 at 11-12 (Farman).

are then charged for demand in addition to volumetric and customer charges. Swanton is proposing to change this structure to a requirement that customers who utilize 1,800 kWh over a twelve-month rolling average take service under this tariff, and that those customers may be removed from the schedule only if their twelve-month average usage remains below 1,800 kWh for three consecutive months, provided they do not exceed 8 kW of demand. In support of this change, Swanton states that it has found that a number of its customers will occasionally exceed the two-month threshold, spend 11 months taking service under the demand rate schedule, and then immediately revert to the standard residential rate.

I conclude that Swanton's proposed revisions to the terms of service of its residential demand tariff are reasonable. I also note that although no members of the public commented on this issue in this proceeding, the terms of this rate schedule were a concern raised by several members of the public at the Board's public hearing in Swanton's most recent cost-of-service proceeding.<sup>9</sup> Swanton's proposed revisions to this tariff will result in greater stability for those customers who have had to move between the two tariffs in the past while retaining an appropriate incentive for high-usage customers to manage peak loads.

#### Local Service Tariffs

Swanton presently provides transmission services under a set of Local Service Tariffs that rely on formulas tied to market and other data to arrive at the tariffed rate.<sup>10</sup> Although the Local Service Tariffs were put into effect in 2008 on the basis of formulas intended to flow through costs associated with serving those customers taking service under them, the final rates set in those tariffs are fixed.<sup>11</sup> Accordingly, these tariffs have not been recalculated since they went into effect.<sup>12</sup> Adjustments to these tariffs were not included in the CCOS Study or the proposed rate design filed by Swanton in this proceeding.<sup>13</sup> The absence of an assessment of the costs associated with serving customers taking service under the Local Service Tariff raises questions

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9. See Docket 8024, tr. 5/20/13 at 10-13 (Chevalier) and 16-17 (Gagne).

10. Tr. 5/19/15 at 7-8 (Farman).

11. Tr. 5/19/15 at 8-9 (Farman).

12. Tr. 5/19/15 at 8-9 (Farman).

13. Swanton Responses at 2.



as to whether those costs are being appropriately recaptured by the rates being charged to those customers, or whether those costs are being shifted to Swanton's retail customers. However, under the Stipulation, Swanton has agreed to recalculate these rates at the same time it makes any future rate filings pursuant to 30 V.S.A. § 225. Recalculating these rates will ensure that Swanton's costs to serve transmission customers are being fully recaptured from those customers, and therefore I conclude that this provision of the Stipulation will help ensure that Swanton's rates are just and reasonable.

#### Effective Date

In the Stipulation, the parties did not identify an effective date for the proposed rate design changes to take effect. In order to give Swanton time to implement the revised tariffs, I recommend that the tariff changes become effective on a service-rendered basis beginning on the first day of the month after the Board's final approval of them.

#### V. CONCLUSION

Based on the Stipulation and the above findings, I conclude that the rate design changes proposed by Swanton in its November 3, 2014, rate design filing will result in just and reasonable rates, and I therefore recommend that the Board approve the Stipulation and resulting rate changes with the conditions included in the Stipulation. I recommend that the tariff changes become effective on a service-rendered basis beginning on the first day of the month after the Board's final approval in this docket.

The above proposal for decision ("PFD") is provided to the Board pursuant to 30 V.S.A. § 8(c). I believe the findings, conclusions, and recommendations in this PFD are consistent with the Stipulation and are not adverse to the interests of any party. Accordingly, this PFD has not been served upon the parties for comment under 3 V.S.A. § 811.

Dated at Montpelier, Vermont, this 29<sup>th</sup> day of July, 2015.

s/Kevin C. Fink

Kevin C. Fink  
Hearing Officer

## VI. ORDER

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings, conclusions, and recommendations of the Hearing Officer are adopted.
2. The proposed rate design filed by Swanton Village, Inc. Electric Department ("Swanton") on November 3, 2014 is approved.
3. The approved changes and revisions to Swanton's tariff shall become effective on a service-rendered basis on August 1, 2015.
4. Swanton shall update its Local Service Tariffs (Schedules 7, 8, and 9) at the same time that it makes retail rate cost-of-service filings under 30 V.S.A. § 225. Until such time as Swanton revises the Local Service Tariffs, this update will involve Swanton recalculating final rates according to the formulas contained in the Local Service Tariffs.
5. Swanton shall file revised tariffs in conformance with the Stipulation and this Order within five (5) business days of the issuance of this Order.

Dated at Montpelier, Vermont, this 29<sup>th</sup> day of July, 2015.

<u>s/James Volz</u>	)	
	)	
	)	PUBLIC SERVICE
<u>s/Margaret Cheney</u>	)	
	)	BOARD
	)	
	)	OF VERMONT
<u>s/Sarah Hofmann</u>	)	

OFFICE OF THE CLERK

FILED: July 29, 2015

ATTEST: s/Susan M. Hudson

Clerk of the Board

*NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@vermont.gov)*

*Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and Order.*